


Kentucky State Committee for School  
District Audits  
Members of the Board of Education  
McCracken County Board of Education  
Paducah, Kentucky

In planning and performing our audit of the financial statements of the McCracken County Board of Education School Activity Funds as of and for the year ended June 30, 2005, we considered the Board's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain items that are immaterial instances of noncompliance and opportunities for strengthening internal controls and operating efficiency of the McCracken County Board of Education Activity Funds. The memorandum that follows this letter summarizes our comments and suggestions regarding these items. A separate report dated September 15, 2005, contains our report on the Board's internal control structure. This letter does not affect our report dated September 15, 2005, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2005.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these items, or to assist you in implementing the recommendations.

This report is intended for the information of the Kentucky State Committee for School District Audits, the School Board's management, audit committee, and members of the Board of Education of McCracken County School District.

  
Kemper CPA Group LLP  
Paducah, Kentucky  
July 29, 2005

## ACTIVITY FUNDS

Kentucky Administrative Regulations (702 KAR 3:130) requires school activity funds to adhere to its "Accounting Procedures for Kentucky School Activity Funds", commonly referred to as the "Red Book". We noted numerous instances where activity fund records and accounting procedures were not maintained in accordance with the "Red Book" requirements. These items are noted in the remainder of this report.

Audit testing of school activity funds indicated several areas with opportunities for strengthening internal controls or operating efficiency which were present at more than one location. The matrix below indicates the following conditions.

### SCHOOL LOCATIONS

|                             | CONDITION # |   |   |   |   |   |   |   |   |
|-----------------------------|-------------|---|---|---|---|---|---|---|---|
|                             | 1           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Concord Elementary School   |             |   |   | X |   |   |   | X | X |
| Farley Elementary School    |             |   |   |   | X | X |   | X |   |
| Heath Elementary School     |             |   |   | X | X |   | X | X |   |
| Heath Middle School         |             |   |   | X | X |   | X |   |   |
| Heath High School           |             |   |   |   |   |   | X |   |   |
| Hendron/Lone Oak Elementary |             |   |   |   | X |   |   |   |   |
| Lone Oak Elementary         |             | X |   | X |   |   | X |   |   |
| Lone Oak Middle School      |             |   |   | X |   |   |   |   |   |
| Lone Oak High School        |             |   |   |   |   |   | X | X |   |
| Reidland Elementary School  |             |   | X |   | X |   | X |   |   |
| Reidland Middle School      |             |   |   |   |   |   |   |   | X |
| Reidland High School        |             |   |   |   |   | X | X |   |   |

*Condition # 1:* Budgets were not prepared and reviewed monthly for all activity funds. This was primarily noted where new activity funds were established in the current year. The "Red Book" requires all activity funds to submit budgets.

*Recommendations:* Budgets should be prepared and reviewed monthly for each activity fund.

*Condition # 2:* Testing of disbursements indicated purchase requests were not always properly completed prior to invoice date. Through other audit procedures, we were able to satisfy ourselves that such items were authorized.

*Recommendations:* We suggest purchase requests be completed and signed prior to ordering materials and/or services.

*Condition # 3:* Credit cards were not always properly checked out by using the credit card sign-in/out form (F-SA-13) and/or not kept in a secure location at all times. This increases the potential for unauthorized use of credit cards.

*Recommendations:* Credit card check outs should not be allowed until the form F-SA-13 is properly completed. In addition, credit cards should be maintained and stored in a secure area when not in use.

*Condition # 4:* We noted instances where the person receiving ordered merchandise did not initial the receiving report to indicate they verified receipt of the merchandise. This creates potential unauthorized payment for goods not actually received.

*Recommendations:* Personnel responsible for receiving merchandise should initial the receiving report after inspecting condition, type and quantity of merchandise received.

*Condition # 5:* We noted instances where activity fund sponsors did not indicate authorization approval on purchase order request forms. We did verify such items were in fact approved. However, we believe the approval process should be clearly documented prior to payment.

*Recommendations:* All purchase orders/request forms should have authorized sponsor approval before processing the order and making payment.

*Condition # 6:* We noted two instances where bingo receipts and disbursements were maintained within the activity funds. This poses potential legal, tax, insurance, and bonding concerns for the District.

*Recommendations:* While the *Accounting for School Activity Funds (Red Book)* does not specifically address the accounting for this fund-raising activity, we believe the Board should obtain written guidance from the Kentucky Department of Education concerning whether this activity should be maintained in a separate booster club, thereby, reducing the Board's potential problems associated with operating these activities.

*Condition # 7:* In testing disbursements and receipts, we noted instances where collections were either not remitted to the school treasurer or deposited into the bank in a timely manner. Timely submission and deposit of collections results in improved cash flow while reducing the possibility of loss due to theft, fire, or impropriety.

*Recommendations:* We recommend receipts collected be submitted to the school treasurer and deposited daily unless the amount is less than \$100. Amounts less than \$100, in the aggregate, should be deposited no less than weekly with all funds on hand maintained in a secure area.

*Condition # 8:* We noted the bank account currently used by the school does not earn interest. According *Accounting for School Activity Funds (Red Book)*, the Internal Account should be in an interest bearing account.

*Recommendations:* We recommend the school select a banking institution that provides for interest bearing accounts.

*Condition # 9:* We noted instances where amounts transferred between activity funds were not properly documented. According to the *Accounting for School Activity Funds (Red Book)*, amounts may be transferred between activity funds only by proper completion of a Transfer Form (Form F-SA-10).

*Recommendations:* We recommend this form be completed for every transfer transaction and the appropriate signatures obtained prior to processing.

The following comments indicate areas of concern unique to specific schools within the district:

#### **Lone Oak Elementary School**

*Comment:* We noted the school did not complete a purchase order when using the standard invoice form for disbursements. According to the *Accounting for School Activity Funds (Red Book)*, “each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice (F-SA-8), which must be signed by the payee.”

*Recommendations:* We recommend a purchase order should be prepared and approved by the sponsor and principal before any payment is obligated.

#### **Heath Middle School**

*Comment:* We noted an instance where an activity fund sponsor collected money from students without completing the multiple receipt form. The activity fund sponsor also requested a disbursement in relation to the money collected without an accompanying invoice.

*Recommendations:* We recommend all teachers/sponsors use multiple receipt forms when collecting cash from students. In addition, teachers/sponsors should be instructed on proper completion of the form to include date, amount, and signature. Teacher/sponsor should retain a copy and remit original to the Central Treasurer. We also recommend all disbursements be accompanied by a properly completed purchase order form and the supporting vendor invoice.

#### **Heath Elementary School**

*Comment:* We noted an instance where a check for disbursement was not properly authorized. Per the *Accounting for School Activity Funds (Red Book)*, all checks written on the Internal Account shall contain the signatures of the principal or designee, and the school treasurer. Review of this transaction indicated the items were actually authorized, approved, and the correct expense was incurred.

*Recommendations:* We recommend all disbursements be properly authorized, which includes the signatures of the principal or designee, and the school treasurer on the check.

## District Wide

The following general comments were noted concerning activity funds throughout the district:

*Comment:* The revised "Red Book" is available on the internet.

*Recommendations:* All personnel involved with activity funds should be aware of the availability of the "Red Book" on the internet. In addition, a copy should be available for reference at each school.

*Comment:* During testing of employee bonding, we noted activity fund custodians/bookkeepers were only bonded to \$75,000 for most of the fiscal year ended June 30, 2005, when these personnel were handling amounts in excess of \$100,000. Failure to adequately bond these individuals puts the Board at risk of inadequate insurance against misappropriation of funds.

*Recommendations:* We recommend management review personnel bonded and adjust bonding to \$200,000 to insure adequate coverage.

*Comment:* Inquiry of management indicated activity fund sponsors were not required to review a monthly financial report.

*Recommendations:* In order for activity fund sponsors to monitor their activity, monthly reports should be distributed to them.